1971

CANADIAN HYDROCARBONS LIMITED ANNUAL REPORT

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Brussels, Belgium
Executive Officer, Electrorail S.A.

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Montreal, Quebec
President, United North American Holdings Limited

Michael H. Finnell
President

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Brussels, Belgium
Executive Officer, Electrorail S.A.

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Calgary, Alberta
Barrister and Solicitor

Dr. Fritz Morschbach
Cologne, Germany
Executive Officer, Elektrische Licht und Kraftanlagen A.G., Munich

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J. Grant Spratt
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Petroleum Consultant

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Chairman of the Board

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Assistant Secretary

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Head Office

700 Three Calgary Place, Calgary 1, Alberta

Transfer Agent and Registrar

Montreal Trust Company, Calgary, Toronto and Montreal

United States Transfer Agent

Morgan Guaranty Trust Company of New York, New York

United States Registrar

Manufacturers Hanover Trust Company, New York

Stock Exchange Listings

Canada	*Toronto Stock Exchange*
	Montreal Stock Exchange
United States	*American Stock Exchange*

Auditors

Clarkson, Gordon & Co., Calgary

Annual Meeting

The Annual Meeting of the Company
will be held at the Calgary Inn,
Calgary, Alberta at 10:00 a.m., May 16, 1972

Contents

CANADIAN HYDROCARBONS LIMITED
1971 Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS

1969	1970	1971	FINANCIAL
$ 4,920,457	$ 6,077,845	$ 3,857,503	Net Earnings
9,336,764	13,061,356	12,830,210	Cash flow from operations
53,069,049	82,726,878	101,270,417	Gross revenue
635,959	643,391	633,553	Dividends on preferred shares
805,711	990,504	1,240,529	Dividends on common shares
			Per common share:
.95	1.10	.65	Net earnings
1.93	2.51	2.46	Cash flow (after preferred dividends)
.20	.20	.25	Cash dividends
16,898,257	14,776,340	20,694,685	Working capital
30,618,490	42,876,152	59,238,986	Long term debt
56,874,585	73,958,658	84,588,186	Net investment in fixed assets
101,192,760	130,171,423	143,007,665	Total assets
4,949,972	4,956,872	4,963,605	Number of common shares outstanding at year end

			OPERATING
116,169,000	140,935,000	141,851,000	Gallonage – propane and butane
62,869,000	157,290,000	220,122,000	Gallonage – gasoline and other petroleum products
12,664,311	14,393,828	15,480,331	Natural Gas (mcf)
20,883,105	25,298,100	28,504,000	Electricity (kwh)
1,046	1,349	1,278	Average number of employees
2,573	2,932	2,936	Number of common shareholders

The information gives retroactive effect to stock splits and income tax re-assessments.

Gallonage figures are expressed in terms of Canadian gallons.

REPORT TO THE SHAREHOLDERS

Following four years of consecutive annual increases in earnings before extraordinary income items, over which period these earnings increased at an average compound rate of 39% per year, Canadian Hydrocarbons recorded a 37% decline in earnings for 1971. This disappointing performance was due to a combination of factors, principally, reduced profit margins in the Company's United States operations, generally increased operating expenses owing in part to non-recurring operating expenses and decreased interest income from short term investments.

Consolidated net earnings were $3,857,503 compared to $6,077,845 in 1970, a decline of $2,220,342. Earnings before income taxes declined 32% from the comparable 1970 figure of $7,624,940. Notwithstanding the substantial decline in earnings, cash flow from operations was down only 2% to $12,830,210.

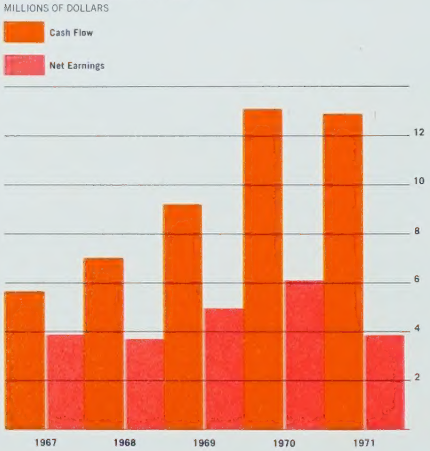
Earnings per common share were 65¢ on 4,963,605 shares outstanding at December 31, 1971 compared to $1.10 restated on 4,956,872 shares a year earlier. Cash flow per common share was $2.46 compared to $2.51 for the previous year. These results were obtained from gross revenue of $101,270,417, a substantial increase over the $82,726,878 a year earlier.

Working capital at year end, including approximately $14,000,000 of cash and short term deposits, was $20,694,685. Total assets at December 31 were $143,007,665 compared with $130,171,423 at December 31, 1970.

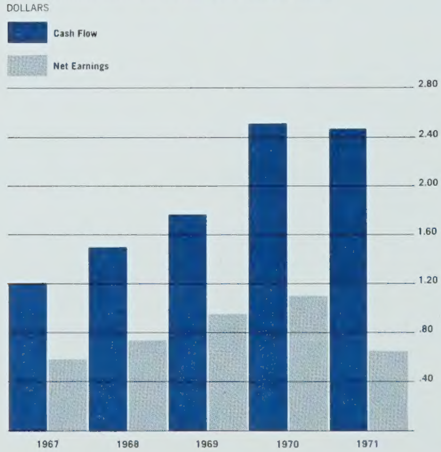
Long term debt including current maturities at December 31, 1971 amounted to $60,721,701, of which bank production loans totalled $17,963,135. It is anticipated that these production loans, which are repayable out of production from oil and gas properties, will be repaid by 1976.

Interest on the remaining long term debt of $42,758,566 including current maturities amounted to $2,187,139 for 1971, an average rate of 5.7%. This interest expense was covered 3.4 times by consolidated net

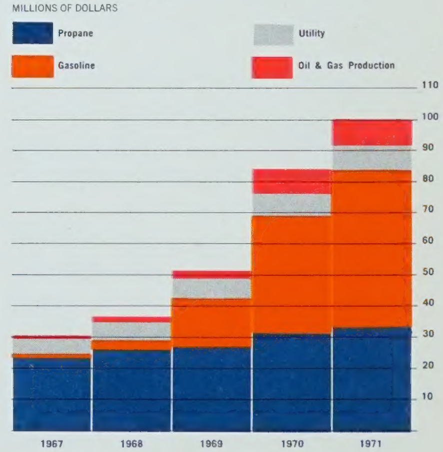
NET EARNINGS AND CASH FLOW
MILLIONS OF DOLLARS



NET EARNINGS AND CASH FLOW PER COMMON SHARE
DOLLARS



SOURCES OF GROSS REVENUE
MILLIONS OF DOLLARS



earnings before income taxes and interest. The total repayment obligations on this remaining portion of long term debt over the next five years amount to $7,831,000, averaging $1,566,000 per year.

Capital expenditures for 1971 totaled $22,418,916 in contrast to $13,258,896 during 1970. The 1971 expenditures included $8,524,000 for the purchase of producing oil and gas reserves in the United States.

Dividends of $1,874,082 were paid in 1971, $633,553 on preferred shares and $1,240,529 on common shares.

Marketing and Refining

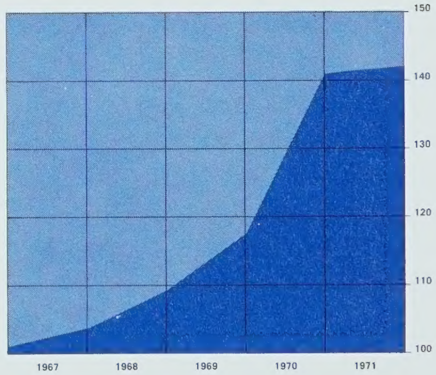
The total volume of propane, gasoline and light oils sold in 1971 reached a record level of 362,000,000 gallons, an increase of 21% over the 298,000,000 gallons sold in 1970. Gasoline and light oils sales volume rose to 220,000,000 gallons, a 40% increase and propane sales volume increased from 141,000,000 gallons to 142,000,000 gallons. Though product sales and gross profits improved in both Canada and the United States, increased gross profits were not sufficient to offset increased operating expenses. Gross profit margins declined substantially in the United States while only a small decline was experienced in Canada.

Canadian operations suffered from increased operating expenses, including the write-offs of accounts receivable and dealer failures of a non-recurring nature.

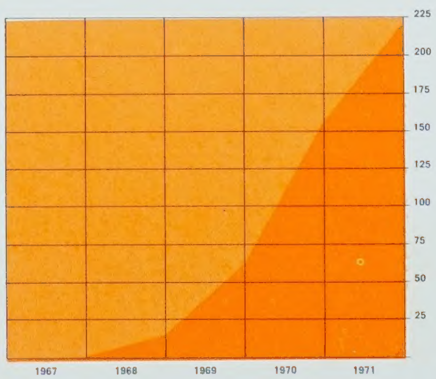
Operations in the United States (including three refineries, a gas processing facility, an asphalt plant, and 137 petroleum product outlets, the great majority of which were acquired as a result of acquisitions in 1970) suffered from reduced profits brought about by an increase in the cost of crude oil without a commensurate improvement in product selling prices, severe gasoline price wars, and a 64% decline in the value realized from the sale of foreign crude oil import tickets. The Company's United States refineries operated at optimum throughput levels during the first nine months of 1971 but at only 86% of optimum for the full year, resulting from a crude oil shortage during the final quarter. In addition the efficiencies anticipated in 1971 from the consolidation of the facilities acquired in 1970 were not achieved.

The full benefit of efficiencies resulting from staff reductions, centralized computerization of accounts and the automation of refineries is anticipated in the second half of the current year. The crude oil shortage at the Company's United States refineries has been alleviated by utilizing crude oil reserves purchased in North Dakota. Further, negotiations are progressing with producers for the supply of additional Canadian crude. The Company has a licence to import 940,000 barrels of Canadian crude in 1972 and has applied for an additional 240,000 barrels. The retail gasoline market which was subjected to severe price wars during 1971, particularly in the Pacific Northwest, is currently enjoying higher prices resulting from an improved marketing atmosphere. In addition, the realizable value of foreign crude oil import tickets has almost doubled over 1971. The principal thrust in the United States is the conversion from wholesale to retail of the Company's petroleum marketing operations. There is good reason to expect that these operations will be profitable in 1972 in contrast to the loss experienced in 1971.

PROPANE AND BUTANE
MILLIONS OF GALLONS



GASOLINE LIGHT OILS AND OTHER PETROLEUM PRODUCTS
MILLIONS OF GALLONS



Utilities

Gas utility sales volumes rose during 1971 to 14,019,000 mcf, an increase of 10.3% over 12,706,000 mcf for 1970. Sales of $9,982,224 showed an increase of 12% and earnings from operations improved by 4%. This increase in sales volumes was achieved despite warmer than normal weather compared to the previous year. The increase in customers resulting from expansion of existing facilities and the construction of new systems to communities not previously served more than offset reduced volumes attributable to warmer weather. The Company continues to attach as customers substantially all new construction in its service areas.

During 1971 the Company negotiated three franchise renewals for terms of 10 years each, and added three communities and one farm system in the Province of Alberta. At year end the Company served 32,182 customers in 68 communities and 14 rural areas.

Oil and Gas Production and Exploration

Oil and gas net production revenue totalled $5,756,292 for 1971, of which $4,956,870 was from sub-leases. In the second half of 1971 the Company acquired interests in 235 oil wells and 107 gas wells in the States of Louisiana, Arkansas, Texas, California and North Dakota for an aggregate consideration of $8,524,000. The Company's current share of production from these properties is averaging over 1,200 barrels of oil and equivalent gas per day. For 1972 net production revenue from these properties is estimated at approximately $1,365,000. Expenditures for exploration, development, and producing property acquisitions, including sub-leases, aggregated $16,441,986 during the past year. In addition, the Company spent $1,506,107 on exploration under the agreement with Canadian Homestead. The Company now holds, apart from Canadian Homestead, working and royalty interests in approximately 2,572,120 gross acres equivalent to 190,226 net acres of non-producing prospective oil and gas properties in Alberta, British Columbia, Northwest Territories, Arctic Islands, on the Grand Banks off Newfoundland and in the United States.

Within the past several months the Company participated in three discoveries, one oil and two gas, all in the Province of Alberta. These discoveries, in which the Company has minor interests, are currently being evaluated.

Canadian Homestead Oils Limited

Under terms of the 1968 agreement with Canadian Homestead, a total of $4,410,000 has been spent through December 31, 1971 on exploration of Homestead properties, for which the Company has received a total of 801,743 Homestead common shares at $5.50 per share. The Company is committed to spend an additional $4,590,000 by the end of December, 1974 for which it will receive a further 834,545 Homestead common shares at the same price. In addition it has an option to acquire a further 1,381,109 shares at $6.67 per share through 1977. Upon completion of this agreement, the shares acquired, combined with those held by Castle Oil & Gas Limited, a Hydrocarbons' subsidiary, will give the Company control of 51% of Homestead's then outstanding shares. The Company now holds 1,395,412 shares of Homestead, representing approximately 29% of the presently outstanding common shares.

Homestead's production of crude oil and condensates is running in excess of 2,000 barrels per day, while gas sales average 5.7 mmcf per day. An increase in oil and gas production can be anticipated as a result of Homestead's exploration success during 1971.

Following up the 1970 discovery at Meekwap, two development wells have been completed and are now on production. These wells are excellent producers and represent substantial additions to Homestead's oil reserves. Gas discoveries were made during the past year at Donalda, Shotgun and East Kaybob, but further drilling will be required to determine the extent of productive areas before these reserves can be produced.

Homestead's basic exploration program is concentrated in Alberta, Saskatchewan and British Columbia. However, large acreage positions are held in most of the frontier areas of Canada, particularly in the Arctic Islands, Beaufort Sea, Hudson Bay and the Grand Banks off the East Coast of Canada. Much of this acreage is located in areas currently subject to intensive exploration by the industry. It is anticipated that certain of Homestead's holdings in the Arctic Islands and the Beaufort Sea will undergo active exploration in the current year. Exploration and maintenance of many of these large blocks is undertaken by other operators with Canadian Homestead's position carried through the primary exploration phase.

Homestead has recently embarked upon a number of foreign exploration ventures in areas where acreage can be obtained at relatively low cost, with preliminary exploration to be conducted by Homestead in association with other companies. To date Homestead has been successful in acquiring an interest in a favourably situated permit totalling 52,000 acres in the British sector of the North Sea. Other foreign exploration prospects are being actively pursued.

Petcal Company Limited, Homestead's wholly owned management and consulting service company, manages the affairs of Homestead and, in addition, provides property management, geological and field services from drilling through production. This organization operates 275 producing oil and gas wells, four gas plants and eight enhanced recovery projects.

Current land holdings of 16,648,000 gross acres are equivalent to 8,073,000 net acres.

The map on page 6 shows the geographical distribution of Homestead's acreage holdings in Canada.

Uranium

Production at two uranium mines operated by the Company in the Uravan district of Colorado is currently averaging 1,400 tons per month of high grade uranium/vanadium ore. These mines are situated on approximately 17,000 acres of mining claims. An additional 15,000 acres of uranium claims are held in the Lisbon Valley district of Utah. Exploration is continuing on these properties to develop additional reserves. The Company has a 40% interest in these operations.

In February, 1972 an agreement was concluded with Cleveland-Cliffs-Getty/Skelly under which the Company will acquire a 51% interest in approximately 75,000 acres of prospective uranium claims in

ARCTIC OCEAN
Beaufort Sea
ALASKA
YUKON TERRITORY
NORTHWEST TERRITORIES
PACIFIC OCEAN
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
UNITED STATES
MAJOR AREAS OF INTEREST IN CANADA
CANADIAN HOMESTEAD LAND HOLDINGS
MAJOR PRODUCING AREAS

MAP SHOWING CANADIAN HOMESTEAD LAND HOLDINGS

LAND HOLDINGS SUMMARY
December 31, 1971

	Acres Gross	Acres Net
Alberta	613,000	286,000
British Columbia	230,000	33,000
Saskatchewan	465,000	58,000
Manitoba	3,000	3,000
Nova Scotia	219,000	11,000
Newfoundland	710,000	177,000
Northwest Territories	542,000	434,000
Yukon	337,000	54,000
Ungava Bay	2,367,000	1,183,000
Arctic Islands	2,365,000	1,178,000
Hudson Bay	7,559,000	1,512,000
Gulf of St. Lawrence	2,450,000	2,450,000
	17,860,000	7,379,000

the Pumpkin Buttes district of Wyoming in consideration for $1,000,000 to be spent during 1972 and 1973 in the exploration of these properties.

This further investment in uranium exploration is a reflection of the conviction that nuclear energy will play an increasingly important role in meeting the accelerating energy requirements of North America.

Outlook

Numerous positive measures have been undertaken, with others in progress, to overcome the conditions that resulted in the Company's disappointing performance during the past year. These include a restructuring of certain subsidiaries and divisions to effect greater operating and financial control. Conversion to computerized accounting in the United States is near completion, which will result in both staff reductions and the timely availability of required operating data.

Branches at certain locations in Canada and the United States have been consolidated or closed to reduce operating expenses. The Company is disposing of surplus and low return assets which have impaired earnings in the past. Excess rolling stock, principally the Company's rail tank fleet, is being trimmed to efficient levels. Steps are in progress to obtain additional crude for United States refineries which should permit these facilities to operate close to optimum levels. Results of these actions, combined with improved industry conditions reflected in a better retail gasoline marketing atmosphere in the United States and the substantially higher realizable value from the sale of foreign crude oil import tickets, should improve the earning power of the Company.

While the Company curtailed its marketing and refining acquisition program in 1971 it is again pursuing acquisition prospects.

These measures and conditions, when considered in the light of the non-recurring nature of part of last year's increase in operating expenses, give considerable encouragement for improved earnings in 1972.

* * *

On September 23, 1971 Michael H. Finnell was appointed President of Canadian Hydrocarbons. Raymond A. Rich, previously Chairman and President, continues as Chairman. Mr. Finnell, for the past five years a Director and a Vice-President of the Company, brings to his new position twenty-five years of Canadian petroleum and mining experience.

Mr. James C. Egan has been appointed President of Canadian Propane Gas & Oil Ltd. and Thunderbird Petroleums, Inc., the Company's petroleum marketing and refining subsidiaries in Canada and the United States. The appointment is effective May 1, 1972.

For the past 20 years Mr. Egan has been associated with a major oil company in the United States, where he has held senior management positions in virtually every phase of that company's petroleum marketing operations. Most recently he had responsibility for operations in 30 States involving 12,000 marketing outlets.

RAYMOND A. RICH
Chairman of the Board

MICHAEL H. FINNELL
President

April 28, 1972

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 31, 1971 and 1970

	1971	1970
Revenue		
Sales	$ 92,323,225	$74,052,199
Income from oil and gas sub-leases	4,736,489	3,904,382
Installation rentals	1,880,214	1,835,368
Interest and other income	2,330,489	2,934,929
	101,270,417	82,726,878
Expenses		
Cost of sales	64,315,475	47,633,283
Operating, selling and administrative expenses	19,125,099	16,545,283
Interest and expenses on long term debt	2,819,072	2,749,361
Other interest expense	897,172	797,067
Depreciation	3,804,510	3,394,609
Depletion		
Oil and gas sub-leases	4,155,148	3,421,113
Other	682,388	259,391
Minority interest in earnings of subsidiaries		
Preferred share dividends	163,388	170,711
Other	129,299	131,120
	96,091,551	75,101,938
Earnings before income taxes	5,178,866	7,624,940
Income taxes (Note 7)	1,321,363	1,547,095
Net earnings for the year	$ 3,857,503	$ 6,077,845
Net earnings per common share	$.65	$1.10

See accompanying notes

CONSOLIDATED BALANCE SHEET

December 31, 1971 and 1970

ASSETS

	1971	1970
Current		
Cash	$ 2,464,473	$ 1,804,481
Short term deposits	12,510,528	14,740,806
Accounts and notes receivable	20,020,282	17,889,726
Inventories at lower of cost or replacement cost	7,790,050	8,191,791
Prepaid expenses	532,178	370,724
	43,317,511	42,997,528
Investments		
Shares of Canadian Homestead Oils Limited (Note 2)	9,098,040	7,600,184
Other at cost	1,646,584	1,734,824
	10,744,624	9,335,008
Fixed at Cost (Note 3)	117,172,368	98,217,638
Less accumulated depreciation and depletion	32,584,182	24,258,980
	84,588,186	73,958,658
Other		
Notes receivable from directors and officers	540,250	540,250
Debt financing and other deferred charges less amounts written off	1,260,498	837,211
Cost of shares of subsidiaries over net book value at dates of purchase	2,556,596	2,502,768
	4,357,344	3,880,229
	$143,007,665	$130,171,423

On behalf of the Board:

R. A. RICH, Director.

M. H. FINNELL, Director.

See accompanying notes

LIABILITIES

	1971	1970
Current		
Bank loans and bankers' acceptances ($3,855,000 secured)	$ 8,384,477	$ 11,355,961
Accounts payable and accrued charges	11,611,088	12,597,667
Income taxes payable (Note 7)	379,885	1,199,823
Current maturities of long term debt (Note 4)	1,482,715	2,429,501
Deferred income	764,661	638,236
	22,622,826	28,221,188
Long Term Debt (Note 4)	59,238,986	42,876,152
Deposits	473,362	532,099
Deferred Income Taxes (Note 7)	1,108,299	752,498
Minority Interest in Subsidiaries (Note 5)	5,186,559	5,278,063

SHAREHOLDERS' EQUITY

	1971	1970
Capital (Note 6)		
Authorized		
250,000 first preferred shares, par value $20 each		
4,000,000 second preferred shares, par value $25 each		
14,000,000 common shares, no par value		
Outstanding		
225,255 5½% cumulative redeemable first preferred shares (1970 - 228,755 shares)	4,505,100	4,575,100
252,200 6% cumulative redeemable second preferred shares (1970 - 256,100 shares)	6,305,000	6,402,500
4,963,605 common shares (1970 - 4,956,872 shares)	22,956,049	22,905,760
	33,766,149	33,883,360
Retained Earnings (Note 8)	20,611,484	18,628,063
	54,377,633	52,511,423
Commitments (Notes 2 and 10)		
	$143,007,665	$130,171,423

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Years Ended December 31, 1971 and 1970

	1971	1970
Source of Funds		
Operations		
Net earnings for the year	$ 3,857,503	$ 6,077,845
Add		
Depreciation and depletion	8,642,046	7,075,113
Deferred income taxes	368,834	557,437
Other	(38,173)	(649,039)
Cash flow from operations	12,830,210	13,061,356
Issue of common shares	50,289	37,350
Disposal of fixed assets	3,421,068	598,215
Additional long term debt	23,269,632	16,453,138
	39,571,199	30,150,059
Use of Funds		
Investment in subsidiaries		
Fixed assets		11,425,293
Long term debt		(1,075,995)
Other		(86,477)
		10,262,821
Additions to fixed assets	22,418,916	13,258,896
Dividends on common and preferred shares	1,874,082	1,633,895
Reduction of long term debt	6,906,798	4,896,005
Investment in Canadian Homestead Oils Limited	1,506,107	1,186,343
Payment of prior years' income taxes		1,139,129
Redemption of first and second preferred shares	167,500	167,500
Expenses of debt financing	449,048	
Other	330,403	866,515
	33,652,854	33,411,104
Increase (Decrease) in Working Capital	$ 5,918,345	$ (3,261,045)
Increase (Decrease) in working capital represented by		
Short term deposits	$ (2,230,278)	$ (1,086,219)
Accounts and notes receivable	2,130,556	6,141,533
Inventories	(401,741)	3,699,127
Bank loans	2,971,484	(5,730,961)
Accounts payable and accrued charges	986,579	(5,888,301)
Current maturities of long term debt	946,786	(634,158)
Other	1,514,959	237,934
	$ 5,918,345	$ (3,261,045)

See accompanying notes

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31, 1971 and 1970

	1971	1970
Balance at beginning of year		
As previously stated	$19,815,425	$15,323,242
Prior years' income taxes (Note 7)	1,187,362	1,139,129
As restated	18,628,063	14,184,113
Add net earnings for the year	3,857,503	6,077,845
	22,485,566	20,261,958
Less dividends		
First preferred shares	249,403	253,391
Second preferred shares	384,150	390,000
Common shares	1,240,529	990,504
	1,874,082	1,633,895
Balance at end of year	$20,611,484	$18,628,063

See accompanying notes

Auditors' Report

To the Shareholders of
Canadian Hydrocarbons Limited

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and subsidiaries as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants.

Calgary, Canada.
March 8, 1972.

Notes to Consolidated Financial Statements

December 31, 1971

1. Consolidation policy

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries. When subsidiaries are acquired the purchase price is allocated to assets based on appraisals and any remaining difference is recorded as "cost of shares of subsidiaries over net book value at dates of purchase".

United States dollar amounts have been translated to Canadian dollars on the basis that $1.00 U.S. equals $1.03 Canadian.

Certain of the 1970 accounts have been reclassified to conform with the 1971 classification of accounts.

2. Investment in Canadian Homestead Oils Limited

Under the terms of an agreement entered into between Canadian Propane Gas & Oil Ltd. (formerly Consolidated Hydrocarbons Limited — a wholly owned subsidiary) and Canadian Homestead Oils Limited in 1968, Canadian Propane committed to expend $9,000,000 in the conduct of drilling and exploration operations on Homestead properties at the rate of approximately $1,500,000 per year to December 31, 1974. As consideration for such expenditures, Canadian Propane will receive one common share of Homestead for each $5.50 so expended. Alternatively, Canadian Propane has the right to purchase shares from Homestead at a cost of $5.50 per share to the extent committed funds have not been expended. To December 31, 1971 $4,410,000 had been expended under the terms of the agreement, of which $1,506,000 was expended during 1971. Canadian Propane has an option to expend a further $9,212,000 on the exploration of Homestead properties from January 1, 1975 to December 31, 1977 in consideration for common shares of Homestead at the rate of one common share for each $6.67 so expended. Similarly, these funds may be applied to the purchase of Homestead common shares at a cost of $6.67 per share.

In addition, the Company owns 83.5% of the outstanding shares of Castle Oil & Gas Limited, which company's principal asset is 629,900 common shares of Homestead.

Canadian Propane has granted options to employees of Homestead, dependent upon employment, to acquire 31,500 common shares of Homestead at prices ranging from $5.50 to $20.00 per share, exercisable on various dates to July, 1975.

At December 31, 1971, the companies held a total of 1,395,142 shares of Homestead with a quoted market value of $11,300,000 which investment represents 28.8% of the outstanding common shares of Homestead at that date.

3. Fixed assets

	1971	1970
Customers' installations	$ 19,867,416	$ 20,275,036
Transmission lines and distribution systems	19,486,408	18,555,779
Buildings and equipment	21,857,448	19,655,358
Refineries and gas plants	9,070,065	8,172,774
Automotive equipment	7,266,043	7,207,572
Oil, gas and mining properties and equipment	9,090,490	6,882,561
Oil and gas royalties	7,309,742	
Sub-leases on producing oil and gas properties	19,407,736	13,701,664
Land	3,817,020	3,766,894
	117,172,368	98,217,638
Less		
Accumulated depreciation	22,147,738	18,593,409
Accumulated depletion	10,436,444	5,665,571
	32,584,182	24,258,980
	$ 84,588,186	$ 73,958,658

All costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on a composite unit of production method based on total estimated reserves. Sub-leases on producing oil and gas properties are depleted over their terms which range from three to four years. Oil and gas royalties and mining properties are depleted on a unit of production method based on total estimated reserves.

Depreciation of other fixed assets is provided on a straight line basis at rates varying from 2% to 20% which are designed to amortize the cost of the assets over their estimated useful lives.

4. Long term debt

	1971	1970
6¼% Bank Loan of Thunderbird Petroleums, Inc., due 1976 ($2,800,000 U.S.)	$ 2,884,000	
6½% Sinking Fund Debentures, Series A, of Canadian Propane Gas & Oil Ltd., due 1981	2,408,000	$ 2,548,000
6¼% Sinking Fund Debentures, Series B, of Canadian Propane Gas & Oil Ltd., due 1982	1,475,000	1,560,000
6½% Sinking Fund Debentures, Series C, of Canadian Propane Gas & Oil Ltd., due 1972 to 1987 ($3,071,000 U.S.)	3,163,130	3,163,130
9⅝% Sinking Fund Debentures, Series D, of Canadian Propane Gas & Oil Ltd., due 1977 to 1991 ($7,000,000 U.S.)	7,210,000	
6% Sinking Fund Debentures, Series A, of Great Northern Gas Utilities Ltd., due 1985	8,083,000	8,389,500
7¼% Promissory Note of Great Northern Gas Utilities Ltd., due 1989 ($3,960,000 U.S.)	4,078,800	4,120,000
5% Subordinated Notes of Thunderbird Petroleums, Inc., due 1976 to 1990 ($4,702,075 U.S.)	4,843,137	4,843,137
5% Subordinated Debentures of Thunderbird Resources, Inc., due 1975 to 1989 ($4,490,471 U.S.)	4,625,185	5,396,067
6¼% to 6⅞% Bank Production Loans of various subsidiaries (secured by oil and gas properties), due on various dates to 1975	17,963,135	11,217,749
Notes and Mortgages, due on various dates	3,988,314	4,068,070
	60,721,701	45,305,653
Less current maturities included in current liabilities	1,482,715	2,429,501
	$59,238,986	$42,876,152

In addition to the current maturities included in current liabilities, repayments of bank production loans will approximate $6,277,000 during 1972.

Long term debt repayments, including bank production loan repayments, will be as follows: 1973 – $4,826,000; 1974 – $5,361,000; 1975 – $1,475,000; and 1976 – $4,832,000.

Financing expenses are being amortized over the terms of the issues.

5. Minority interest in subsidiaries

	1971	1970
Preferred shares of Great Northern Gas Utilities Ltd.	$2,652,500	$2,780,000
Other companies		
Capital	1,088,238	1,168,974
Surplus	1,445,821	1,329,089
	$5,186,559	$5,278,063

6. Capital

Under the provisions relating to the outstanding preferred shares, the Company is required to purchase annually for redemption, $70,000 par value first preferred shares (cumulative to a maximum of $140,000 in any calendar year) and $97,500 par value second preferred shares (not cumulative), if available on the open market, at a price not exceeding their par value. The Company has satisfied these requirements to December 31, 1971. In addition, the first and second preferred shares are redeemable at any time at prices not exceeding $21.10 and $26.50 per share respectively.

To December 31, 1971, the Company has redeemed 24,745 first preferred shares of an aggregate par value of $494,900 (3,500 shares during 1971) and 7,800 second preferred shares of an aggregate par value of $195,000 (3,900 shares during 1971). Accordingly, consolidated retained earnings includes $689,900 designated as "capital surplus" under the provision of the Canada Corporations Act.

During 1971, the Company issued, on exercise of stock options, 3,428 common shares to officers and 2,225 common shares to employees for cash considerations of $20,684 and $15,025 respectively.

At December 31, 1971 options were outstanding to officers and employees to purchase 78,575 common shares at prices ranging from $5.125 to $17.875 per share, exercisable on various dates to May 19, 1975 and 20,400 common shares were reserved for the granting of future options under the Employees' Qualified Stock Option Plan.

In addition, the Company issued 1,080 shares for $14,580 cash on exercise of share purchase warrants. At December 31, 1971 warrants were outstanding entitling the holders thereof to purchase 203,460 common shares of the Company at $13.50 per share until December 31, 1973.

7. Income taxes

For income tax purposes the companies claim capital cost allowances (depreciation) and drilling, exploration, property and sub-lease acquisition costs in amounts which exceed the related charges to earnings. The companies are also entitled to claim drilling and exploration costs incurred under the share acquisition agreement with Homestead (see Note 2) which shares are recorded in the accounts at the amount of the total expenditures. As a result, income taxes in respect of income reported for 1971 and 1970 have been reduced.

The Company follows the practice of tax allocation accounting with respect to depreciation claims, except in the case of subsidiary companies engaged in the operation of public utilities which record only income taxes payable in determining rates. During 1971, depreciation claims for tax purposes of non-regulated companies exceeded depreciation provided in the accounts and deferred income taxes of $369,000 were provided thereon.

The Company, in common with many other companies in the Canadian oil and gas industry, believes that tax allocation accounting of claims for drilling, exploration and acquisition costs is not appropriate, and accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded income the income tax provision would have been increased and net earnings for the year would have been decreased by $1,690,000 – $.34 per share ($2,030,000 – $.41 per share in 1970).

The accumulated unrecorded income tax reductions related to all timing differences in the current and prior years amount to approximately $14,654,000 at December 31, 1971.

Accumulated expenditures remain to be carried forward and applied against future Canadian and U.S. income as follows:

	1971	1970
Drilling, exploration and property acquisition costs	$10,595,000	$ 2,255,000
Undepreciated capital cost	35,535,000	31,305,000

The Canadian Federal Tax authorities have issued notices of reassessment for the 1964 to 1969 fiscal years of subsidiaries disallowing certain deductions in arriving at taxable income. The 1970 accounts have been restated to provide for these amounts. The subsidiaries are contesting certain of the reassessments.

8. Dividend restrictions

The provisions relating to the Company's preferred shares contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1971 limits the payment of such dividends to an amount which would reduce consolidated retained earnings to $7,500,000.

9. Additional statutory information

The Company has eleven directors and six officers who were paid the following remuneration during 1971:

	Directors	Officers	Total
Paid by Company	$34,200	$197,167	$231,367
Paid by subsidiaries	10,900	47,500	58,400
	$45,100	$244,667	$289,767

Two officers, who are also directors, received no remuneration in their capacity as directors.

The remuneration paid to directors and senior officers of the Company during 1971 (defined by The Securities Act of Ontario as including the five highest paid employees of the Company and its subsidiaries) amounted to $377,423.

10. Commitments

In addition to the commitments outlined in Note 2, the companies have entered into long term contracts to lease certain fixed assets at annual rentals of approximately $594,100.

TEN YEAR REVIEW

SUMMARY OF CONSOLIDATED STATEMENTS OF EARNINGS for the years ended on the dates shown

(in thousands, except where amounts are given on a per-share basis)

	December 31 1971	December 31 1970	December 31 1969
REVENUE			
Sales	$ 92,323	$74,052	$47,811
Income from oil and gas sub-leases	4,737	3,904	1,878
Installation rentals earned	1,880	1,836	1,681
Interest and other income	2,330	2,935	1,699
	101,270	82,727	53,069
EXPENSES			
Cost of sales	64,315	47,634	27,671
Operating, selling and administrative expenses	20,022	17,342	12,359
Interest and expense on long term debt	2,819	2,749	1,983
Depreciation and depletion	8,642	7,075	4,603
Minority interest in earnings	293	302	255
	96,091	75,102	46,871
EARNINGS			
Earnings before income taxes	5,179	7,625	6,198
Income taxes	1,321	1,547	1,278
Net earnings before extraordinary items	3,858	6,078	4,920
Extraordinary items	—	—	—
Net earnings	3,858	6,078	4,920
Dividends on preferred shares	634	643	636
Net earnings applicable to common shares	$ 3,224	$ 5,435	$ 4,284
Financial and other information			
Working capital	$ 20,695	$14,776	$16,898
Long term debt	59,239	42,876	30,618
Preferred shares	10,810	10,978	11,145
Common shareholders' equity	43,568	41,533	37,053
Common shareholders' equity per share	8.78	8.38	7.49
Earnings per common share	.65	1.10	.95
Dividends per common share	.25	.20	.20
Cash flow from operations	12,830	13,061	9,337
Cash flow per share applicable to common shares	2.46	2.51	1.93
Purchase of fixed assets (net)	18,998	12,661	12,576
Fixed assets including cost of shares of subsidiaries over net book value	87,145	76,461	59,413
Gasoline and other petroleum products sales	47,634	37,327	15,580
Propane sales	24,423	22,868	19,801
Natural gas sales	7,388	6,728	5,868
Oil and gas production sales (including sub-leases)	5,660	4,283	2,231
Merchandise sales	9,975	8,296	5,610
Gallonage - total propane, gasoline and other petroleum products	361,973	298,225	179,038
Number of common shares outstanding at year-end	4,964	4,957	4,950

Notes:

The information gives retroactive effect to stock splits and income tax re-assessments.

Gallonage figures are expressed in terms of Canadian gallons.

December 31 1968	December 31 1967	December 31 1966	December 31 1965	March 31 1965	March 31 1964	March 31 1963
$33,189	$28,199	$15,879	$14,322	$13,503	$12,234	$10,412
732	119	61	—	—	—	—
1,499	1,504	917	751	653	590	508
1,365	659	102	164	105	27	—
36,785	30,481	16,959	15,237	14,261	12,851	10,920
17,376	14,068	7,900	7,019	6,554	6,285	5,319
9,783	8,757	4,967	4,383	4,237	3,672	3,319
1,286	1,063	429	434	419	383	281
3,256	2,637	1,694	1,443	1,249	1,096	909
197	180	—	—	—	—	—
31,898	26,705	14,990	13,279	12,459	11,436	9,828
4,887	3,776	1,969	1,958	1,802	1,415	1,092
1,170	809	341	137	—	—	(42)
3,717	2,967	1,628	1,821	1,802	1,415	1,134
—	993	—	—	—	—	—
3,717	3,960	1,628	1,821	1,802	1,415	1,134
657	579	187	192	81	—	—
$ 3,060	$ 3,381	$ 1,441	$ 1,629	$ 1,721	$ 1,415	$ 1,134
$ 6,199	$10,160	$ 2,559	$ 3,503	$ 6,334	$ 3,357	$ 3,068
20,960	19,159	6,644	6,131	6,491	5,475	5,737
10,950	9,849	3,365	3,452	3,500	—	—
25,210	22,671	13,758	12,693	11,901	10,607	9,274
5.94	5.39	4.31	3.98	3.74	3.39	3.04
.72	.57	.45	.51	.54	.45	.37
.175	.14	.125	.125	.11	.075	.05
6,974	5,604	3,323	3,198	2,989	2,365	1,876
1.49	1.20	.98	.94	.91	.75	.62
6,066	1,075	4,173	4,233	3,919	1,757	2,943
50,831	44,218	20,897	18,372	15,567	12,841	12,105
2,914	588	466	—	—	—	—
18,685	17,270	11,097	9,695	9,105	8,045	6,675
5,100	4,407	—	—	—	—	—
1,041	421	185	117	105	—	—
5,329	4,711	3,650	3,498	3,327	3,230	2,983
123,334	102,976	75,658	64,403	57,570	48,865	39,210
4,242	4,204	3,194	3,186	3,182	3,133	3,048

PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Canadian Propane Gas & Oil Ltd.
(formerly Consolidated Hydrocarbons Limited)
Great Northern Gas Utilities Ltd.
Thunderbird Petroleums, Inc.
Canadian Homestead Oils Ltd.
Castle Oil & Gas Limited
Fort St. John Petroleums Ltd.
Vancouver Island Gas Company Ltd.

Map showing the geographical distribution of the Company's operations across Canada and in the United States

YUKON TERRITORY
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASK
MANITOBA
ONTARIO
H U D S O N
B A Y
Approximate area of oil and gas production, exploration and development.
WASH.
MONTANA
NORTH DAKOTA
OREGON
IDAHO
WYOMING
UTAH
COLORADO
Areas of Uranium Mining, Exploration and Development
Uranium Mine
CALIFORNIA
ARK.
TEXAS
LA.
G U L F O F
M E X I C O
P A C I F I C O C E A N

LEGEND

- GASOLINE, LIGHT OILS, PROPANE
- GASOLINE, LIGHT OILS
- PROPANE
- UTILITIES
- REFINERIES AND PROCESSING PLANTS
- STATES AND AREAS IN WHICH COMPANY HAS OIL AND GAS PRODUCTION

MAJOR FACILITIES AND DISTRIBUTION LOCATIONS

	1971 TOTAL
FRANCHISES	
Gas	81
Electrical	1
RETAIL OUTLETS	
— Propane	146
— Petroleum Products	133
— Fertilizer	6
STORAGE POINTS	29
CONSIGNEE OPERATED OUTLETS	
— Propane	45
— Petroleum Products	155
— Fertilizer	4
PROCESSING PLANTS AND REFINERIES	9
RAILWAY TANK CARS	179
HIGHWAY TRANSPORTS	
— Propane	39
— Petroleum Products	10
DELIVERY TRUCKS	
—Propane	270
— Petroleum Products	65
SERVICE TRUCKS	382
EMPLOYEES	1,293
CUSTOMERS (PROPANE & UTILITIES)	166,250
MILES OF PIPELINE (Transmission & Distribution)	2,658
PROPANE STORAGE FACILITIES	
— Above Ground	35,757,555
— Underground	16,500,000

CANADIAN HYDROCARBONS LIMITED
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